May 11, 1978

Honorable Mayor and City Council
City of Hayward
22300 Foothill Boulevard
Hayward, California 94541

Real prop. tax -- CA
" " " -- Hay
Hay -- App. & expen.

Dear Honorable Mayor and City Council:

The following recommendations of the Citizens Advisory Committee to the City Council are the consensus of the Committee on the preferable interim steps to be taken by the City of Hayward in the event of the passage, June 6, 1978, of Proposition 13. It is generally accepted that such passage will result in reduced revenue to public agencies, including the City of Hayward, which derive funds from property tax sources.

The Committee made the following assumptions during its deliberations:

(1) Passage of Proposition 13 will mean a period of uncertainty during any legal or court tests.

(2) Some time will be necessary for any action from Sacramento to be forthcoming to clarify the exact amount of resulting revenue reduction to the City of Hayward.

(3) During this period of uncertainty, severe cuts in operational funding which would result in loss of jobs, and/or elimination of services would be unwise and poor business practices.

(4) Permanent changes and long range planning must wait until the effect of Proposition 13 is better known.

(5) Due to the limited time available the Committee will make no attempt to analyze specific departments or jobs with an eye toward suggesting priorities relative to specific cuts in operational costs.

The Committee of twenty-one persons appointed by Council and consisting of people of divergent interests and backgrounds met on one Thursday and on four consecutive Monday evenings. Committee members generally agreed that the business and operation of the City of Hayward is run by exceptionally well qualified and dedicated personnel, from Mr. William Hanley on down. Committee consensus also indicates that massive "gutting of the organization" which is the City of Hayward, in all of its departments and offices, during this period of uncertainty is NOT the goal, nor the recommendation of the Citizens Advisory Committee. To the contrary, each of the recommended list of twelve actions was considered for its ultimate effect upon the citizens of Hayward.

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The Committee requested, and the staff presented information on:

(1) A list of Capital and other reserves from which substantial amounts of funds could be shifted or borrowed;

(2) A list of potential sources of offsetting revenue; and

(3) Basic material on operating costs and organizational staffing. The 1978 Budget of the City was also studied.

The following is a list of suggested options in order of priority as assigned through consensus of the Committee, with the number 1 item considered by the Committee to be the first suggested option to be exercised, then item number 2 and so on until the shortfall in revenue is met. Comments in connection with each option, where indicated, represent the Committee's views, and/or intention or qualifications pertinent to that option.

OPTION NO. 1: FIVE PER CENT CUT OF GENERAL FUND BUDGET

Expected to conserve approximately $1,100,000. This level of cuts will not result in major disruption of services, nor cause layoffs and is deemed reasonable and prudent, by the Committee.

OPTION NO. 2: INSTITUTE A CONSTRUCTION TAX OF $500 PER UNIT

Expected to generate $750,000. Projected revenue based upon estimated 1500 units currently in planning for next year. The Committee felt that this tax should be an average amount per dwelling with a four bedroom single family home carrying a higher tax than would a small apartment. Committee recommends that this tax be instituted for use as operational funding during the interim period of uncertainty or first year; and thereafter to be used for capital improvement funding. "Buy In" figures of neighboring and area cities are generally substantially above those of Hayward. Proportionate share of the cost of existing capital improvements should be offset through the use of a self sustaining capital fund. Requires action prior to June 6 or 2/3 voter approval thereafter.

OPTION NO. 3: INCREASE HOTEL AND MOTEL TAX 1½%

Expected to generate approximately $27,000. This tax will largely be paid by visitors rather than local residents. With the historical relationship of this tax to the concept of Sales Tax, it was felt that a good case can be made to increase our current rate from 5% to 6½% and thereby produce a modest amount of replacement funding. Requires action prior to June 6 or 2/3 voter approval thereafter.

OPTION NO. 4: TRANSFER FROM GENERAL REVENUE SHARING $373,000

These funds are currently unallocated and will require little or no change in current planning.

OPTION NO. 5: TRANSFER FROM EQUIPMENT MAINTENANCE/REPLACEMENT FUND $300,000

Current reserves which if shifted would require longer periods of use of present equipment, higher rental charges to using departments and at this level would strongly suggest some replacement of funds from another source.

OPTION NO. 6: TRANSFER FROM WORKERS COMPENSATION FUND $500,000

Current reserves. May be borrowed without damaging the fund integrity. Fund balance can be restored by replacement from another source if available, or by continuing standard premium rates above actual experience until the fund is replenished if desired.

OPTION NO. 7: INCREASE OF PERMITS AND SERVICE CHARGES 25%

$85,000. It was understood by the Committee that generally these charges do not completely cover the cost of rendering the services.

OPTION NO. 8: TRANSFER FROM CAPITAL IMPROVEMENT FUND 40, $350,000

If used for operations there is little prospect at this time for replacing these funds. This will require postponement or cancellation of landscaping and beautification or secondary road improvement projects.

OPTION NO. 9: INCREASE BUSINESS LICENSE TAX 33%

$115,000. The Committee considered that "Hayward's current rate structure and minimum license fees are toward the low end of the range" of nearby cities and that our rate structure has not recently been revised. This change would require Ordinance changes prior to June 6 or 2/3 voter approval thereafter.

OPTION NO. 10: TRANSFER OF GAS TAX FUNDS 10 and 11, $400,000

Shifts current capital reserves to operational uses from the Five Year Plan.

OPTION NO. 11: ADDITIONAL 2½% CUT OF GENERAL FUND BUDGET $550,000

This level of budget cuts though recommended by the Committee is beyond the level of cuts staff suggests can be accomplished without affecting level of service.

OPTION NO. 12: REINSTITUTE UTILITY USERS TAX AT 2½%

$1,000,000. Would generate this approximate amount of revenue with a generous low income exemption level. The least acceptable option in the view of the Committee but on the acceptable if necessary list. One member observed with general Committee agreement that some stands were taken with prior Council positions in mind rather than judging each option and its relationship to others on its own merit.

In addition to the above options the Committee studied and discarded as a possible source the CASH BASIS FUND due to the Charter requirement limiting such borrowing to a very temporary time frame.

The Committee suggests that in the event Proposition 13 fails these recommendations should not be considered any further.

The Committee commented on the apparent sound financial condition of the City of Hayward, which attests to the high quality of our managerial staff and sound policies established by the City Council. The members of the Committee expressed their compliments to the following for their excellent cooperation during the Committee deliberations: Bill Hanley, Joan Castaneda, Chuck McCormack, Ed Phillips and Dave Berger.

With the exception of the one appointee who resigned, and whose individual views are stated in his letter of resignation, the Committee as a group was comfortable with their recommendations to the City Council on ways in which to adjust to the reduced revenue which will result in the event of the passage of Proposition 13.

Pat Machado

Chas. P. Machado
Chairman

CITY OF HAYWARD

INTEROFFICE MEMO

TO: Citizens Advisory Committee on Proposition 13 DATE: April 17, 1978

SUBJECT: Cash Reserve Funds

Three funds are held by the City to provide for uncertain or certain future obligations.

1. Cash Basis Fund

Section 1207 of the Charter of the City of Hayward provides:

> "There shall be a Cash Basis Fund which balance each fiscal year shall be equal to not less than fifteen (15) per cent of the current year's proposed expenditures for General Fund current expenses. Each fiscal year, the City Council shall appropriate to the Cash Basis Fund such amounts as are required to comply with this section.
>
> Expenditures shall not be made from the Cash Basis Fund. Available money in the Cash Basis Fund may be loaned by transfer, to other funds of the City, in anticipation of receipts for such borrowing fund. Such loans shall be repaid to the Cash Basis Fund during the same fiscal year that the loan was made.
>
> The sole purposes of the Cash Basis Fund are to avoid the necessity of revenue anticipation borrowing and to insure a good credit standing for the City."

The cash balance in this fund will be approximately $2,400,000 at June 30, 1978. As the Charter states, this fund may not be expended, but may be used for temporary borrowing by another fund during a fiscal year. If the committee was convinced that the Legislature would provide some amount of replacement revenues to local agencies, prior to June 30, 1979, then it might recommend some amount of temporary transfer from the Cash Basis Fund to the operating funds. The hazard in this suggestion is the total uncertainty about whether or when, and in what amounts to what kinds of agencies, the Legislature might disperse State revenues to offset some portion of the Prop. 13 loss.

One prudent approach might be to recommend a level of borrowing for a limited time, say six months. If no action has been taken by the Legislature by January 1, 1979, then repayment would have to be accomplished by commensurate expenditure reductions for the balance of the fiscal year. An appropriate range of consideration for this approach might be $250,000 to $500,000.

2. Safety Operations/Workers' Compensation Fund

The City of Hayward became self-insured for workers' compensation in 1975. Each operating department is charged standard or "book" rates for its employees and cash is transferred from the operating fund to this fund to provide for program administration, payment of claims and the accumulation of a prudent reserve for current and future claims. The balance at June 30, 1978 will be approximately $1,890,000 with about a third of that amount reserved for the future costs of known current claims.

It has been the City's intention to start giving rate reductions to operating departments based on actual experience after the first few years. This action will slow the accumulation of cash reserves and reward accident prevention and safety consciousness activities. If a temporary borrowing from this fund was contemplated, it should be accompanied by a commitment to repay the borrowed money from another source, or continuation of standard premium rates above actual experience levels until the transfer had been replenished. Borrowing on the order of $500,000 would not severely damage the integrity of the workers' compensation fund.

3. Equipment Maintenance and Replacement Fund

This fund receives monthly rental payments from the operating departments that utilize any of the City's 375 vehicles and other motorized equipment. The rental payments are calculated to include the costs of fuels, lubricants, parts, maintenance and eventual replacement of each vehicle at the end of its operating life. In this manner, the budgets of operating departments are not inflated by vehicle and equipment replacement costs and the repair, maintenance and replacement of vehicles is centralized in one division.

The balance in this fund is anticipated to be about $730,000 at June 30, 1978, of which amount $500,560 is reserved for eventual replacement of Fire Department apparatus. A fire pumper now costs $65,000 to $90,000 and an aerial ladder truck costs about $120,000 to replace. The programmed useful lifetimes of fire pumpers is twenty years in front line service, and for ladder trucks it is twenty-five years. Rather than having replacement costs severely strain the budget in the years new equipment is needed, a gradual accumulation of cash has been scheduled.

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If the City Council wished to borrow from this fund for a relatively short period of uncertainty, and there was some reasonable expectation that funds would be made available to restore the balance, as much as three or four hundred thousand dollars might be appropriate. However, if the fund was expected to restore itself from increased rental rates, a lesser amount, say $200,000, would be supportable.

In considering transfers or temporary borrowing from these funds, the anticipated replenishment sources should be considered, as the obligations will continue and the demands upon these funds will require their restoration within a reasonable time period.

Charles B. McCormack

CHARLES B. McCORMACK
Director of Finance

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CITY OF HAYWARD

INTEROFFICE MEMO

TO: Citizens Advisory Committee on Proposition 13 DATE: April 20, 1978

SUBJECT: Potential Revenue Increases

1. Hotel-Motel Occupancy Tax

Hayward currently levies a 5% room tax on overnight accommodations. The tax will yield about $95,000 in 1977-78, or about $19,000 for each percentum of rate. Some other cities levy a higher percentage tax (Oakland and Fremont are at 6%), and there is no legal limit. The original 5% rate was established to be equal to the sales and use tax rate; now that sales and use taxes are at 6½%, an increase of the room tax might be suggested.

2. Business License Tax

Municipal business licenses are permitted for the purpose of raising revenue and are not regulatory. Equity is very difficult to achieve, considering vast differences between types of businesses in profitability or gross margins. Most cities now employ a form of gross receipts tax, as a net income tax is prohibited by state law. A few cities, such as San Leandro, continue to collect license taxes only on the basis of number of employees, generally at nominal rates.

Hayward uses a gross receipts tax, utilizing several categories of business to attempt to achieve relative equity and measure "ability to pay". Hayward's current rate structure and minimum license fee are toward the low end of the range of those nearby cities that seek substantial revenue from business licenses. Hayward has not revised its rate structure for many years, and has not looked to business licenses as a major revenue source, in order to encourage business and industry to locate here.

The following tabulation shows comparative business license taxes for selected typical businesses in four cities.

	Hayward	Fremont	San Leandro	Oakland
Retail Dress Shop (gross $383,000)	$ 80.00	$131.40	$ 46.00	$229.80
Gasoline Service Station (gross $500,000)	88.00	116.50	40.00	300.00
Manufacturer (80 employees)	100.00	136.50	190.00	720.00
Physician (gross $110,000)	100.00	148.50	42.00	187.00

These examples are not exhaustive of the total range of license tax practices, but illustrate our relative position and potential for increase. We currently collect about $345,000 in business licenses from a total of about 4,600 licensees. If the Citizens Committee and the City Council wished to increase revenue from this source, it would be necessary to adopt ordinance changes prior to June 6, to avoid the two-thirds voter approval requirement of Prop. 13. Increasing all rates by one-third would produce about $115,000.

3. Permits and Service Charges

The City of Hayward currently collects approximately $330,000 per year from permit fees and special service charges. Generally, these charges do not completely cover the costs of rendering the services. The major portion of this revenue source comes from building inspection fees and similar fees for specific property related services. Fees have not normally been raised to the level of covering all costs, as there is considered to be a general benefit to the community in maintaining construction standards and in code enforcement generally, some of which is not chargable to individual property owners.

Increases in permit fees and inspection fees could be justified in the range of twenty to twenty-five percent, for a yield of $65,000 to $85,000.

4. Utility Users' Tax

Between 1969 and 1977, the City of Hayward imposed a 5% tax on the use of telephones, electricity, and gas. The maximum annual tax per utility per customer was $500 and an exemption was available to low income households. The annual revenue production in 1976-77 was about $1,700,000. If a more generous low income exemption was made available, and taking into account utility rate and usage increases, re-institution of the utility users' tax could produce $1,800,000 to $2,000,000 at the 5% rate level. As in the case of the Hotel-Motel Occupancy Tax, the 5% rate is only historically and not statutorily related to the rate for general sales and use taxes.

During the eight years Hayward collected utility users' taxes, the proceeds were restricted to capital improvements. Many other charter cities that collect utility users' taxes spend the revenue for operating purposes.

5. Construction Tax

Most cities in this area levy a variety of taxes or fees on new construction, in addition to building inspection permit fees. Most of these fees are collected for specific purposes, such as capital improvement, replacement or expansion needs of utility systems or other public facilities. These fees are often considered "buy in" fees to be paid by a builder or new homeowner.

Although the rate schedules vary as to the base (square feet of house, number of bedrooms, feet of frontage, value of land, location etc.), the following listing indicates the range and type of fees collected by cities in this area, omitting fees earmarked for water and sewer installation costs or facility "buy in".

Hayward -

$500 per unit average - Park dedication

Livermore -

$245 per unit - City storm drainage
120 per unit - County storm drainage
466 per unit - Park and Open Space
409 per unit plus 19¢ per sq. ft. - Contractor's business license

Fremont -

$515 per unit - Construction tax
300 per unit - Park dedication

Union City -

$125 for one bedroom, $75 add'l. bedrooms - Bedroom tax
34 for 6,000 sq. ft. lot - Signalization fee
400 per unit - New Haven School District (eff. 4/24/78)

Pleasanton -

$ 90 per unit - Bedroom tax
varies - Park dedication, depends on size, location
(In addition, Pleasanton collects $2,428 in water, sewer, and flood control fees.)

If the City of Hayward wished to levy an additional tax on residential construction, it would probably be desirable to relate such a tax to capital improvements not otherwise provided for. A "buy in" fee for streets, storm drains, fire stations, police facilities, or administrative offices that are already in place may be rationalized. If such fees were levied and retained for future capital improvements, current balances in capital funds might then be released for current operating expenditures. An estimated 1,500 new dwelling units will be constructed in Hayward next fiscal year. If a $500 construction tax was imposed, $750,000 would be generated, assuming such a tax did not deter currently planned construction.

Charles B. McCormack

CHARLES B. McCORMACK
Director of Finance

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